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Potatoes and Potato Products Annual

EU exports of frozen potato products are expected to stabilize

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Report Highlights:
Production of ware potatoes is expected to be slightly lower than last year; imports from within the EU will ensure full use of the processing capacity in Belgium and the Netherlands. EU exports of frozen potato products are expected to be similar to last year despite the slight rise in price. The future for the European frozen potato product industry looks bright due to growing demand for these products in the Middle East, Russia, Latin America and South East Asia.

Commodities:

Potato Products, Frozen

Report

Disclaimer: This report presents the situation and outlook for potatoes and frozen potato products the EU. The report presents the views of the authors and does not reflect the official views of the U.S. Department of Agriculture (USDA). The data are not official USDA data.

This Potatoes & Potato Products report is an Annual report. For the purpose of this report, the focus is on EU exports of Frozen Potato Products (HS 200410). Valuable contributions were made from the following Foreign Agricultural Service analysts:

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Abbreviations and definitions used in this report

EU	European Union
MT	Metric Ton = 1000 kg
MMT	Million Metric Tons
MY	Marketing Year

Production of Ware Potatoes

Because five EU countries (Belgium, France, Germany, the Netherlands and Poland) represent 99 percent of EU exports of frozen potato products, this report focuses only on potato production in these five countries. Despite an increase in harvested area of around five percent, their combined potato production was down by almost three percent compared to last year due to overall lower yields. This year's production is estimated at 24.2 MMT, similar to the past five-year average production (see Table 1).

Only in Poland was potato production significantly up; favorable weather conditions resulted in higher yields. On the other hand Belgium, the Netherlands and to a lesser extent France saw a decrease in production. The growing season was delayed this year due to a cold and wet start and it ended with dry and very warm weather, which is expected to produce fewer and possibly smaller tubers. Because of this irregular growing season, some tubers are demonstrating growth cracks which could result in fries with black parts. However, the Dry Matter Content (DMC) is expected to be high this year; good news for potato processors as it results in higher quantities of finished product. Potatoes with a high DMC are vulnerable to bruising, especially when harvested in dry soils. It also negatively impacts their shelf life. All in all harvesting was delayed because the soil was simply too dry.

Table 1: Ware potato production in selected EU Member States in MMT

	MY2011/12	MY2012/13	MY2013/14	*MY2014/15	*MY2015/16	**MY2016/17	%
Belgium	3.6	4.1	2.8	3.4	4.1	3.7	-10.0
France	5.5	4.5	5.1	6.2	5.4	5.2	-3.7
Germany	7.9	7.2	6.8	8.6	7.4	7.5	+1.0

Netherlands	3.9	3.4	3.5	3.9	3.8	3.3	-13.2
Poland	4.0	4.2	3.9	4.4	4.2	4.5	+7.1
Total	24.9	23.4	22.1	26.5	24.9	24.2	-2.8

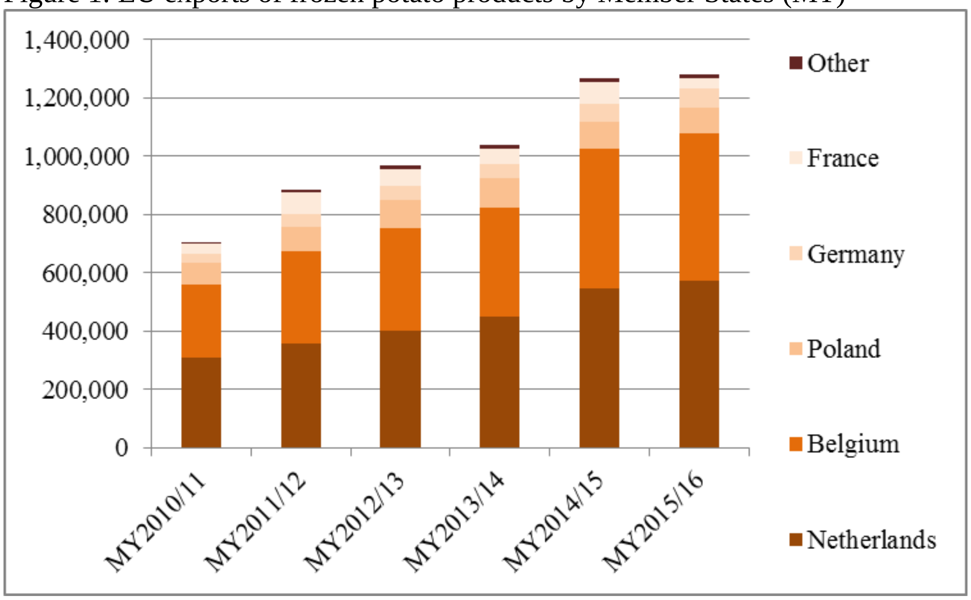
Source: FAS European Posts and North-Western European Potato Growers Foundation
* Revised figures compared to GAIN Report NL5031
** FAS European Posts' Estimate

EU Exports of Frozen Potato Products and Outlook

Poland and Germany will compensate for the lower production of ware potatoes in Belgium and the Netherlands in order to fully use processing capacity. As a result, the production of EU frozen potato products is expected to be similar in MY 2016/17. Price levels for potatoes will be somewhat higher in MY 2016/17 making EU frozen potato products slightly less competitive in export markets.

EU frozen potato products trade is dominated by trade between the EU member states. Exports to third markets have become more important in the past decade and represent almost 30 percent of total exports. EU exports of frozen potato products to third markets reached almost 1.3 million tons in MY 2015/16.

Figure 1: EU exports of frozen potato products by Member States (MT)

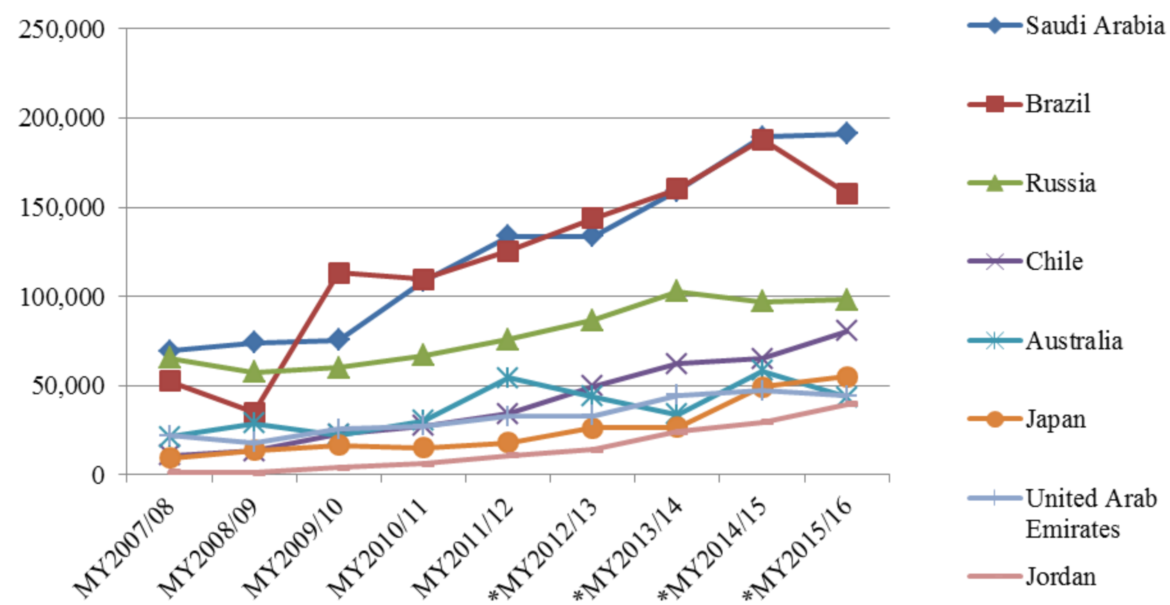


Source: Global Trade Atlas

The Netherlands is the EU's leading exporter of frozen potato products, followed closely by Belgium. In MY 2015/16, exports from the Netherlands to third country markets totaled 575 thousand MT, up by five percent. Belgium's exports totaled 505 thousand MT, up by six percent. Together, the Netherlands and Belgium are responsible for almost 85 percent of total EU exports. Saudi Arabia and Brazil continue to be their leading export markets.

Poland, Germany and France are also active in third country markets, exporting respectively 84 thousand MT, 69 thousand MT and 36 thousand MT in MY 2015/16. Due to its geographical location, Poland is the EU's leading supplier to the fast food industry in not only Russia but also the Ukraine, Kazakhstan and Belarus.

Figure 2: EU exports to selected markets in MT



Source: Global Trade Atlas
* Revised figures compared to GAIN Report NL5031

Over a quarter of all EU exports are shipped to Saudi Arabia and Brazil. In MY 2015/16 frozen potato products export to Brazil dropped by roughly 30 thousand MT, or 16 percent due to competition from Argentina. Other important export markets for EU frozen potato products include Russia, Chile, Japan, UAE and Australia. Exports to the United States totaled 18 thousand MT, up four thousand MT from last year. The United States and the EU compete in markets like Japan, the Philippines, Malaysia, Australia and China.

Short Term Outlook

The future for the European frozen potato product industry looks bright due to growing demand for these products. The following facts and developments will in one way or another shape the export opportunities in the coming years.

- The EU competes with North America in third markets. Generally speaking the quality and cost price of frozen potato products does not differ much between these two competitors. As a result, changes in exchange rates and freight costs can significantly impact international trade.

- According to a recent study by Rabobank, demand for frozen potato products in mature markets like West Europe, North America and Japan is rather stable. However consumption will continue to grow in especially markets like India, China, Middle East, and Russia. Not only is the population growing, the per capita consumption of fries and other frozen potato products is increasing due to the further development of the fast food industry. In order to keep up with demand in these growth markets, potato processing companies are expanding capacity. Lamb Weston Meijer is expanding its facility in the Netherlands by adding a second production line to increase capacity for making fries. Clarebout in Belgium also recently expanded capacity after their former plant was hit by a fire. Other companies that expanded capacity are Agristo and Oerlemans in respectively Belgium and the Netherlands.

- Potato processors depend on a stable supply of raw material in order to fully optimize their processing capacity. This has been the main driver for processors to have contracts with potato farmers. An estimated three quarters of the harvested ware potatoes are produced under contract. To further secure the supply chain, potato processors and farmers are now discussing the option of moving from annual contracts to five-year contracts.

- The production of ware potatoes can continue to grow further since there is sufficient suitable farmland available, especially in France, Germany and Belgium. Depending on the profitability, farmers may decide to expand their potato acreage. Given the required technical expertise, it is not likely new farmers will enter the business. In France, producers' organizations have warned about potato acreage growing too rapidly as it could destabilize the market and have a negative effect on prices. In Poland however there is a general trend of decreased production of ware potatoes mainly due to high costs of producing potatoes compared to other crops and small scale farmers leaving the business and in some cases switching to more profitable crops.

- In some growth markets, European potato processors are partnering with local partners. Lamb Weston Meijer and Russia-based Belaya Dacha signed an agreement to establish a new joint venture. Together they plan to build a new potato processing plant just south of Moscow to serve its fast food service industry. Several years ago, Farm Frites and Aviko teamed up with local players in China for the exact same reason. This development could impact EU exports in the long term although imported finished product can still be more competitive than locally produced finished product. At the same time, other growth markets like countries in the Middle East can only be supplied through imports because of a lack of suitable farmland to produce ware potatoes.

- Potato processors and seed potato companies are working closely together to develop better potato varieties. In order to stay competitive they have developed varieties that have a higher yield, are more resistant to diseases and have a better shape and size for making fries. Traditional potato variety Bintje is rapidly being replaced by new varieties like Fontane, Agria and Challanger. Processing firms are also developing products that have a different shape, color or taste. Finally, several companies are offering a healthier alternative by introducing frozen potato products that can be baked in the oven or fried in an air fryer.

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